



**Director of
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The Overnight Reports, printed on yellow paper as the final section, will often contain materials that update other articles in the *Daily*.

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IRAN

Violence continued throughout Iran over the weekend.

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In Tabriz, one person was killed and scores wounded as fighting broke out between followers of Ayatollahs Khomeini and Shariat-Madari. Sixteen people were killed in similar clashes in Maragheh just south of Tabriz. Reacting to the growing violence, Shariat-Madari has once again backed away from a serious confrontation with Khomeini by renouncing support for the Azarbayjani-based Muslim People's Republic Party. He has called for calm in order to preserve national unity.

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In the port city of Bandar-e Lengeh fighting between Sunni and Shiite Muslims resulted in at least 28 dead and over 100 wounded. The head of the local Islamic Revolutionary Committees in Esfahan was assassinated Saturday. Spokesmen for minority groups there had been demanding the departure of Revolutionary Guards from the city. Minister of State Foruhar, a presidential candidate and member of the government's delegation to the Kurds, barely escaped an assassination attempt in Tehran Saturday.

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Afghan nationals temporarily occupied the Afghan Embassy in Tehran yesterday; they took 14 hostages and demanded the expulsion of Soviet troops from Afghanistan. They released the hostages and abandoned the embassy on orders from the Revolutionary Council.

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support for the revolutionary government by members of Tehran's influential bazaar is waning. The businessmen are disturbed by the continuing economic deterioration and have become increasingly critical of the government's granting of important posts to poorly educated and ill-qualified persons. They also are concerned over what they perceive to be growing Arab, and particularly Palestinian, influence with Khomeini.

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Presidential Campaign

Khomeini has decided to turn over to the people the task of determining the eligibility of presidential candidates. It is not clear how this will be accomplished. The Ayatollah said that he will not endorse any of the more than 100 candidates. One of the leading candidates, Admiral Madani, said yesterday that unnamed persons are disseminating false reports about him and that he might withdraw from the race. [REDACTED]

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Economic Significance of Ethnic Unrest

Iran's economy will be in turmoil regardless of the status of US-Iranian relations if Khomeini cannot quiet the widespread ethnic unrest. The areas of recent ethnic unrest are of major economic or strategic importance. [REDACTED]

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Khuzestan Province, the home of a large Arab population, produces nearly 70 percent of the country's crude oil. Kordestan, Azarbayjan-e-Khavari, and Azarbayjan-e-Bakhtari Provinces--with large Kurdish and Azarbayjani populations--are important agricultural areas that account for a large share of food production. Iran's main rail and road links with Europe and the USSR run through the latter two provinces. In addition, Tabriz, the capital of Azarbayjan-e-Khavari, is an important industrial center. Baluchestan va Sistan Province in southwest Iran contains the strategically important road and rail links with Pakistan. The rail link terminates at Zahedan, the provincial capital and the site of recent fighting. [REDACTED]

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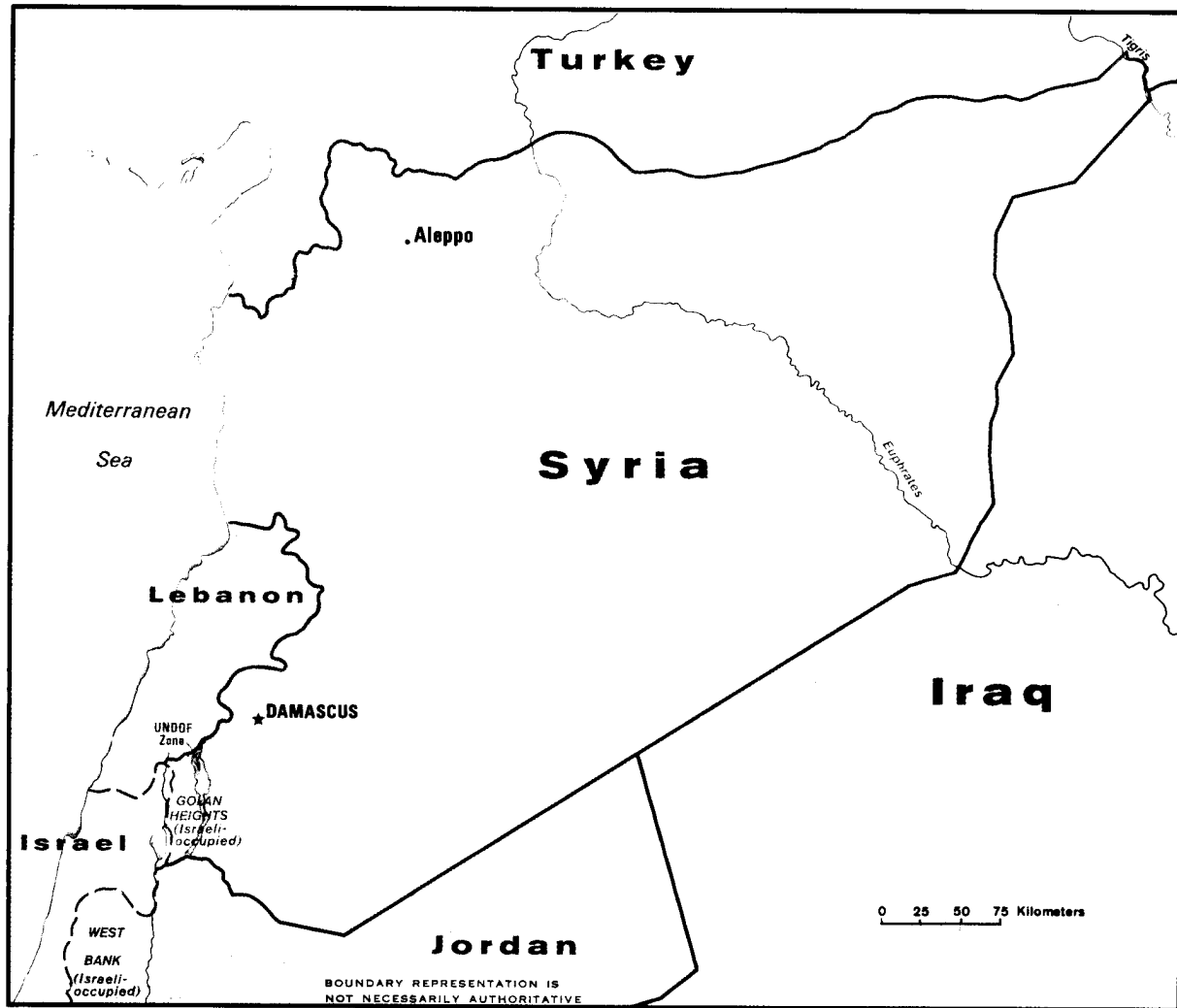
Officials in Tehran not only have to worry about the autonomy aspects of ethnic unrest, but also must be concerned with the indirect effects of such dissidence. Unrest in the northwestern provinces disrupts imports from Europe and the USSR that central authorities need to keep popular discontent in check. While Khuzestan Province in the southwest has been relatively quiet since summer, sporadic sabotage of oil facilities continues. This destruction could easily worsen and threaten oil production, particularly if Iraq steps up agitation among the Arab population. [REDACTED]

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BRIEFS AND COMMENTS

SYRIA: More Violence

Urban terrorists continue to undermine President Assad's minority Alawite regime. [REDACTED]

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Security conditions in Aleppo are deteriorating further, despite the recent deployment there of about 3,000 troops from the Defense Companies headed by the President's brother Rifaat. Gun battles that previously occurred only at night are now reportedly happening during daylight hours. Numerous terrorist attacks on security patrols have also been reported in Damascus, ending several weeks of relative calm. [REDACTED]

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The Sunni Muslim extremists thought to be responsible for most of the violence may have timed the renewed attacks in the capital to embarrass the President during the two-week-long Baath Party congress that ended yesterday. Some local observers believe that with the congress concluded, security forces under Rifaat's direction will initiate widespread repression in an attempt to crush domestic opposition. [REDACTED]

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ISRAEL: Coalition Remains Under Pressure

Despite his recent success in surviving a series of coalition crises, Prime Minister Begin will continue to encounter serious challenges stemming from Israel's massive economic problems, his uncertain health, and cabinet divisions over Jewish settlements in the West Bank. [REDACTED]

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Begin has held his fractious coalition together primarily by exploiting a widely shared reluctance to risk an early national election. Progress by the newly appointed Finance Minister, Yigael Hurvitz, in implementing economic austerity and in redressing Israel's balance-of-payments deficit has provided some assistance recently. Hurvitz is unlikely, however, to have any early success in curbing Israel's triple-digit inflation rate unless he wins support for real wage cuts from the huge labor federation dominated by the opposition Labor Party. [REDACTED]

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Press reports about Begin's declining physical and mental capacities continue to encourage jockeying for position among potential successors within the dominant Likud bloc. While unwilling to confront Begin openly, some leading coalition figures probably would prefer that Begin resign and support a reconstituted coalition under Defense Minister Weizman or some other politically attractive Likud leader. Begin's personal popularity has dropped to under 30 percent, an alltime low. [REDACTED]

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Begin's next crisis may come in February, when a twice-extended deadline expires for relocating the Gush Emunim settlement of Elon Moreh. Now located near Nabulus on the occupied West Bank, the settlement is to be transferred to a new site about six kilometers north.

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[REDACTED] When the site is ready, the government's stability is likely to be threatened once again if the Gush settlers--who say they will not move--refuse to leave peacefully. [REDACTED]

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BOLIVIA: Challenges to Interim President

Interim President Gueiler's seven-week-old administration has weathered its initial challenges in the face of continuing opposition from military [] and querulous political factions.

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General Luis Garcia Meza, commander of the military academy in La Paz, presented the government with its first serious problem by inspiring conservative officers to reject a Gueiler-chosen high command. The President replaced her Army commander with one more acceptable to Garcia Meza's group but stood firm on her other appointments. Garcia Meza, [] epitomizes Gueiler's dilemma: how to formulate policy decisions without antagonizing conservatives in the military. []

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By implementing a necessary but politically unpopular economic austerity program--including a 25-percent peso devaluation and price increases for certain key goods and services--Gueiler has secured needed international financial assistance. She used her friendship with key labor leader Juan Lechin to help calm violent opposition to these moves from labor and peasant groups, and compromised on some price increases without jeopardizing the stabilization program. Nonetheless, new increases or opposition attacks on the economic package could threaten the domestic calm. Anti-US demonstrations could occur as well because of Bolivian opposition to planned sales of tin from US stockpile [] UNCODED

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Gueiler has called for elections in July, and she must now address issues crucial to the election process. She favors general elections, but those Congressmen who took office only last summer oppose them. Gueiler must also prod Congress to establish clearer criteria for the selection of a new chief executive to serve a full four-year term. A prolonged deadlock over this issue would endanger the timetable for this year's contests and could prompt further coup plotting. []

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PAKISTAN: IMF Credits

After a year of negotiations with Islamabad the International Monetary Fund has agreed to extend to Pakistan a \$163 million credit for critical balance-of-payments support. [REDACTED]

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Because the credit is coming from the IMF Trust Fund, Islamabad will be able to avoid the stringent economic measures the IMF frequently requires--and which, in Pakistan's case, would include a devaluation--when it provides financial assistance through its other facilities. The IMF was encouraged by Pakistan's reasonably good economic performance last year. The economy was buoyed by a good wheat crop, rising export earnings, and a continuing high level of remittances from Pakistanis employed abroad. Islamabad promised to curb short-term borrowing abroad this year and to limit its budget deficit but is under no obligation to do so. [REDACTED]

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Even with the new IMF loan, Pakistan will face serious foreign exchange constraints this year unless there are additional loans or debt relief. The government is unlikely to adopt a restrictive financial program in the face of rising domestic and regional tensions over Islam, the Soviet threat from Afghanistan, and tribal instability. [REDACTED]

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NICARAGUA-USSR: Soviet Diplomats Arrive

Eleven Soviet diplomats arrived in Managua on Friday, and another 20 were expected on Saturday. The Soviet Embassy may eventually have 100 representatives, according to a press report. The Soviet Ambassador's name has not been disclosed.

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OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the Intelligence Community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

There is nothing of significance to report.

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